

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 1999

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

COMMISSION FILE NUMBER 1-4298

COHU, INC.
(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
Incorporation or Organization)

95-1934119
(I.R.S. Employer
Identification No.)

5755 KEARNY VILLA ROAD, SAN DIEGO, CALIFORNIA
(Address of principal executive office)

92123
(Zip Code)

858-541-5194
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

As of September 30, 1999, the Registrant had 19,830,760 shares of its \$1.00 par value common stock outstanding.

COHU, INC.
INDEX
FORM 10-Q
SEPTEMBER 30, 1999

PART I FINANCIAL INFORMATION	PAGE NUMBER
Item 1. Financial Statements:	
Condensed Consolidated Balance Sheets September 30, 1999 (Unaudited) and December 31, 1998.....	3
Condensed Consolidated Statements of Income (Unaudited) Three and Nine Months Ended September 30, 1999 and 1998.....	4
Condensed Consolidated Statements of Cash Flows (Unaudited) Nine Months Ended September 30, 1999 and 1998.....	5
Notes to Unaudited Condensed Consolidated Financial Statements.....	6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.....	8
Item 3. Quantitative and Qualitative Disclosures about Market Risk.....	12
PART II OTHER INFORMATION	
Item 5. Other Information.....	15
Item 6. Exhibits and Reports on Form 8-K.....	15
Signatures.....	16

COHU, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)

ASSETS	SEPTEMBER 30, 1999 ----- (Unaudited)	DECEMBER 31, 1998 -----
Current assets:		
Cash and cash equivalents	\$ 51,339	\$ 74,446
Short-term investments	22,864	12,257
Accounts receivable, less allowance for doubtful accounts of \$2,107 in 1999 and \$1,338 in 1998	43,864	18,800
Inventories:		
Raw materials and purchased parts	22,099	12,977
Work in process	18,396	5,927
Finished goods	10,768	6,973
	-----	-----
	51,263	25,877
Deferred income taxes	10,477	10,477
Prepaid expenses	1,709	1,541
	-----	-----
Total current assets	181,516	143,398
Property, plant and equipment, at cost:		
Land and land improvements	2,501	2,501
Buildings and building improvements	12,203	12,102
Machinery and equipment	19,159	17,801
	-----	-----
	33,863	32,404
Less accumulated depreciation and amortization	16,805	14,791
	-----	-----
Net property, plant and equipment	17,058	17,613
Goodwill, net of accumulated amortization of \$2,188 in 1999 and \$1,972 in 1998	939	1,155
Other assets	64	65
	-----	-----
	\$199,577	\$162,231
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 14,489	\$ 3,016
Income taxes payable	6,316	3,070
Customer advances	10,497	3,978
Other accrued liabilities	16,894	13,191
	-----	-----
Total current liabilities	48,196	23,255
Accrued retiree medical benefits	990	993
Deferred income taxes	520	520
Stockholders' equity:		
Preferred stock	--	--
Common stock	19,831	9,779
Paid in excess of par	2,448	11,169
Retained earnings	127,592	116,515
	-----	-----
Total stockholders' equity	149,871	137,463
	-----	-----
	\$199,577	\$162,231
	=====	=====

See accompanying notes.

COHU, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)
(in thousands, except per share amounts)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1999	1998	1999	1998
Net sales	\$61,728	\$34,277	\$134,725	\$146,170
Cost and expenses:				
Cost of sales	37,076	25,606	81,990	94,598
Research and development	5,798	4,726	15,145	16,032
Selling, general and administrative	8,439	4,226	19,680	16,641
	51,313	34,558	116,815	127,271
Income (loss) from operations	10,415	(281)	17,910	18,899
Interest income	1,067	847	3,233	2,396
Income before income taxes	11,482	566	21,143	21,295
Provision for income taxes	4,000	100	7,400	7,300
Net income	\$ 7,482	\$ 466	\$ 13,743	\$ 13,995
Earnings per share:				
Basic	\$.38	\$.02	\$.70	\$.72
Diluted	\$.36	\$.02	\$.67	\$.70
Weighted average shares used in computing earnings per share:				
Basic	19,818	19,474	19,719	19,434
Diluted	20,699	19,820	20,387	20,002
Cash dividends declared per share	\$.045	\$.04	\$.135	\$.12

See accompanying notes.

COHU, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(in thousands)

	NINE MONTHS ENDED SEPTEMBER 30,	
	1999	1998
Cash flows from operating activities:		
Net income	\$ 13,743	\$ 13,995
Adjustments to reconcile net income to net cash provided from operating activities:		
Depreciation and amortization	2,416	2,012
Purchase consideration to be paid with stock	--	46
Increase (decrease) in accrued retiree medical benefits	(3)	66
Changes in assets and liabilities:		
Accounts receivable	(25,064)	4,302
Inventories	(25,386)	10,523
Prepaid expenses	(168)	(32)
Accounts payable	11,473	(12,920)
Income taxes payable	3,246	1,354
Other accrued liabilities	10,222	(1,426)
Net cash provided by (used for) operating activities	(9,521)	17,920
Cash flows from investing activities:		
Purchases of short-term investments	(19,347)	(17,098)
Maturities of short-term investments	8,740	22,847
Purchases of property, plant, equipment and other assets	(1,644)	(1,602)
Net cash provided by (used for) investing activities	(12,251)	4,147
Cash flows from financing activities:		
Issuance of stock, net	1,331	1,899
Cash dividends	(2,666)	(2,334)
Net cash used for financing activities	(1,335)	(435)
Net increase (decrease) in cash and cash equivalents	(23,107)	21,632
Cash and cash equivalents at beginning of period	74,446	39,736
Cash and cash equivalents at end of period	\$ 51,339	\$ 61,368
	=====	=====
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Income taxes	\$ 4,154	\$ 5,946

See accompanying notes.

COHU, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 1999

1 - BASIS OF PRESENTATION

The accompanying interim financial statements are unaudited but include all adjustments (consisting of normal recurring adjustments) which Cohu, Inc. (the "Company") considers necessary for a fair statement of the results for the period. The operating results for the three and nine months ended September 30, 1999 are not necessarily indicative of the operating results for the entire year or any future period. These financial statements should be read in conjunction with the consolidated financial statements incorporated by reference in the Company's Annual Report on Form 10-K for the year ended December 31, 1998 and management's discussion and analysis of financial condition and results of operations included elsewhere herein. Certain amounts in the December 31, 1998 consolidated balance sheet have been reclassified to conform to the September 30, 1999 presentation.

2 - STOCK SPLIT

On August 19, 1999, the Company's Board of Directors authorized a two-for-one stock split in the form of a 100% stock dividend that was paid September 24, 1999, to stockholders of record on September 3, 1999. The stock split resulted in the issuance of 9,914,880 new shares of common stock. All share and per share amounts included herein have been restated to reflect the split.

3 - EARNINGS PER SHARE

Earnings per share are computed in accordance with Financial Accounting Standards Board ("FASB") Statement No. 128, Earnings per Share. Basic earnings per share are computed using the weighted average number of common shares outstanding during each period. Diluted earnings per share include the dilutive effect of common shares potentially issuable upon the exercise of stock options. For purposes of computing diluted earnings per share, weighted average common share equivalents do not include stock options with an exercise price that exceeds the average fair market value of the Company's common stock for the period. For the three and nine months ended September 30, 1999, options to purchase approximately 70,000 and 133,000 shares of common stock at average per share prices of \$21.75 and \$18.70, respectively, were excluded from the computation, and for the three and nine months ended September 30, 1998, options to purchase approximately 708,000 and 396,000 shares of common stock at average per share prices of \$16.61 and \$17.55, respectively, were excluded from the computation. The following table reconciles the denominators used in computing basic and diluted earnings per share:

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1999	1998	1999	1998
	(in thousands)		(in thousands)	
Weighted average common shares outstanding	19,818	19,474	19,719	19,434
Effect of dilutive stock options	881	346	668	568
	20,699	19,820	20,387	20,002
	=====	=====	=====	=====

COHU, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 1999

4 - SEGMENT AND RELATED INFORMATION

The following information is presented pursuant to FASB Statement No. 131, Disclosures about Segments of an Enterprise and Related Information. Intersegment sales were not significant in any period.

	Three months ended September 30,		Nine months ended September 30,	
	1999	1998	1999	1998
	(in thousands)		(in thousands)	
Net sales:				
Semiconductor equipment	\$52,992	\$25,582	\$110,748	\$119,100
Television cameras	5,362	5,162	14,535	15,874
Net sales for reportable segments	58,354	30,744	125,283	134,974
All other	3,374	3,533	9,442	11,196
Total consolidated net sales	\$61,728	\$34,277	\$134,725	\$146,170
Operating profit (loss):				
Semiconductor equipment	\$10,628	\$ (43)	\$ 19,315	\$ 18,574
Television cameras	299	270	810	1,478
Operating profit for reportable segments	10,927	227	20,125	20,052
All other	129	(283)	(671)	(113)
Total consolidated operating profit (loss)	11,056	(56)	19,454	19,939
Other unallocated amounts:				
Corporate expenses	(569)	(185)	(1,328)	(921)
Interest income	1,067	847	3,233	2,396
Goodwill amortization	(72)	(40)	(216)	(119)
Income before income taxes	\$11,482	\$ 566	\$ 21,143	\$ 21,295

	September 30, 1999	December 31, 1998
	(in thousands)	
Total assets by segment:		
Semiconductor equipment	\$ 99,855	\$ 50,754
Television cameras	9,673	8,728
Total assets for reportable segments	109,528	59,482
All other operating segments	6,440	7,537
Corporate	83,609	95,212
Total consolidated assets	\$199,577	\$162,231

COHU, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS
SEPTEMBER 30, 1999

This Form 10-Q contains certain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and is subject to the Safe Harbor provisions created by that statute. The words "anticipate", "expect", "believe", and similar expressions are intended to identify such statements. Such statements are subject to various risks and uncertainties, including but not limited to those discussed herein and, in particular, under the caption "Business and Market Risks" that could cause actual results to differ materially from those projected.

RESULTS OF OPERATIONS

THIRD QUARTER 1999 COMPARED TO THIRD QUARTER 1998

Net sales increased 80% to \$61.7 million in 1999 compared to net sales of \$34.3 million in 1998. This increase was primarily the result of improved business conditions in the semiconductor industry that the Company serves. Net sales during the third quarter of 1998 were negatively impacted by the semiconductor industry downturn that began in mid 1998. Sales of semiconductor test handling equipment in 1999 increased 107% from the 1998 period and accounted for 86% of consolidated net sales in 1999 versus 75% in 1998. Sales of television cameras and other equipment increased 4% while the combined sales of metal detection and microwave equipment decreased 5%. Export sales accounted for 58% of net sales in the third quarter of 1999 compared to 44% for the year ended December 31, 1998.

Gross margin as a percentage of net sales increased to 39.9% in 1999 from 25.3% in 1998 as a result of higher margins in the semiconductor equipment business. Within the semiconductor equipment segment, margins increased in 1999 primarily as a result of increased business volume and changes in product mix. During the third quarter of 1998 the Company shipped a significant number of its Enterprise semiconductor test handlers. There were no Enterprise handler sales in the 1999 period. The gross margins realized on Enterprise sales were lower than the Company's established semiconductor handler products. Research and development expense as a percentage of net sales was 9.4% in 1999, compared to 13.8% in 1998, increasing in absolute dollars from \$4.7 million to \$5.8 million. Selling, general and administrative expense as a percentage of net sales increased to 13.7% in 1999 from 12.3% in 1998 primarily as a result of increases in bad debt and commission expense. Interest income increased to \$1.1 million in 1999 from \$.8 million in 1998 as a result of the increase in average cash and investments. The provision for income taxes expressed as a percentage of pre-tax income was 34.8% in the third quarter of 1999. The effective tax rate was lower than the statutory federal tax rate primarily due to foreign sales corporation benefits. As a result of the factors set forth above, net income increased from \$.5 million in 1998 to \$7.5 million in 1999.

NINE MONTHS ENDED SEPTEMBER 30, 1999 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 1998

Net sales decreased 8% to \$134.7 million in 1999 compared to net sales of \$146.2 million in 1998. Sales of semiconductor test handling equipment in 1999 decreased 7% from the 1998 period and accounted for 82% of consolidated net sales in 1999 versus 81% in 1998. Sales of television cameras and other equipment decreased 8% while the combined sales of metal detection and microwave equipment decreased 16%. Export sales accounted for 60% of net sales in the first nine months of 1999 compared to 44% for the year ended December 31, 1998.

Gross margin as a percentage of net sales was 39.1% in 1999 versus 35.3% in 1998. The gross margin in 1998 was adversely impacted by lower margins on sales of the Company's Enterprise test handlers. Research and development expense as a percentage of net sales was 11.2% in 1999, compared to 11.0% in 1998, decreasing in absolute dollars from \$16.0 million to \$15.1 million. Selling, general and administrative expense as a percentage of net sales increased to 14.6% in 1999 from 11.4% in 1998 primarily as a result of the decrease in business volume and increases in bad debt and commission expense. Interest income increased to \$3.2 million in 1999 from \$2.4 million 1998 as a result of the

COHU, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS
SEPTEMBER 30, 1999

NINE MONTHS ENDED SEPTEMBER 30, 1999 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 1998 (CONT.)

increase in average cash and investments. The provision for income taxes expressed as a percentage of pre-tax income was 35.0% in the first nine months of 1999 compared to 34.3% for the first nine months of 1998. As a result of the factors set forth above, net income decreased from \$14.0 million in 1998 to \$13.7 million in 1999.

LIQUIDITY AND CAPITAL RESOURCES

The Company's net cash flows used for operating activities in the first nine months of 1999 totaled \$9.5 million. The major components of cash flows used for operating activities were net income of \$13.7 million and an increase in accounts payable of \$11.5 million offset by increases in inventories and accounts receivable of \$25.4 million and \$25.1 million, respectively. Net cash used for investing activities included \$10.6 million for the purchase of short-term investments, less maturities, and purchases of property, plant and equipment and other assets of \$1.6 million. Net cash used for financing activities was \$1.3 million. Cash used for financing activities included \$2.7 million for the payment of dividends, offset by \$1.3 million received from the issuance of stock upon the exercise of stock options. The Company had \$10 million available under its bank line of credit and working capital of \$133.3 million at September 30, 1999. It is anticipated that present working capital and available borrowings under the line of credit will be sufficient to meet the Company's operating requirements for the next twelve months.

BUSINESS AND MARKET RISKS

INDUSTRY CYCLES

The Company's operating results are substantially dependent on its semiconductor equipment business. This capital equipment business is in turn highly dependent on the overall strength of the semiconductor industry. Historically, the semiconductor industry has been highly cyclical with recurring periods of oversupply and excess capacity, which often have had a significant effect on the semiconductor industry's demand for capital equipment, including equipment of the type manufactured and marketed by the Company. The Company believes that the markets for newer generations of semiconductors may also be subject to similar cycles and severe downturns, such as those experienced in 1996 and 1998. Reductions in capital equipment investment by semiconductor manufacturers will adversely affect the Company's financial position and results of operations.

RAPID TECHNOLOGICAL CHANGE AND NEW PRODUCTS

Semiconductor equipment and processes are subject to rapid technological change. The Company believes that its future success will depend in part on its ability to enhance existing products and develop new products with improved performance capabilities. The Company expects to continue to invest heavily in research and development and must manage product transitions successfully, as introductions of new products could adversely impact sales or margins of existing products. In addition, the introduction of new products increases the risk that existing products will become obsolete resulting in greater excess and obsolete inventory exposure. This increased exposure may result in increased inventory reserve requirements, similar to or in excess of those recorded in 1998, that could have a material adverse impact on the Company's financial condition and results of operations.

The design, development, commercial introduction and manufacture of new semiconductor test handling equipment is an inherently complex process that involves a number of risks and uncertainties. These risks include potential problems in meeting customer performance requirements, integration of the test handler with other suppliers' equipment and the customers' manufacturing processes, transitioning from product development to volume manufacturing and the ability of the equipment to satisfy the semiconductor

COHU, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS
SEPTEMBER 30, 1999

BUSINESS AND MARKET RISKS (CONT.)

industry's constantly evolving needs and achieve commercial acceptance at prices that produce satisfactory profit margins. The design and development of new test handling equipment is heavily influenced by changes in integrated circuit (IC) back-end manufacturing processes and IC package design changes. The Company believes that the rate of change in such processes and IC packages is accelerating. As a result of these changes and other factors, assessing the market potential and commercial viability of new test handling products is extremely difficult and subject to a great deal of risk. In addition, not all IC manufacturers employ the same manufacturing processes. Differences in such processes make it difficult to design standard semiconductor test handler products that are capable of achieving broad market acceptance. No assurance can be made that the Company will accurately assess the semiconductor industry's future test handler requirements and design and develop products that meet such requirements and achieve market acceptance. Failure to accurately assess customer requirements and market trends for new semiconductor test handler products may have a materially adverse impact on the Company's operations, financial condition and results of operations.

The transition from product development to the manufacture of new semiconductor equipment is a difficult process and delays in product introductions and problems in manufacturing such equipment are common. During 1998 and 1999 the Company experienced difficulties in manufacturing and volume production of its new test handlers. These difficulties, which have been exacerbated by a significant increase in orders for the Castle and the Company's other pick and place handler products, continued through the third quarter of 1999. In addition, after sale support and warranty costs are typically greater with new test handlers than with established products. There can be no assurance that future technologies, processes and product developments will not render the Company's current or future product offerings obsolete or that the Company will be able to develop, introduce and successfully manufacture new products or make enhancements to its existing products in a timely manner to satisfy customer requirements or achieve market acceptance. Furthermore, there is no assurance that the Company will realize acceptable profit margins on such products.

BACKLOG

The Company's order backlog has risen dramatically from December 31, 1998 primarily as a result of the improved business conditions in the semiconductor equipment industry and strong demand for the Company's new pick and place test handler products. A significant portion of the semiconductor test handling equipment backlog at September 30, 1999 was for new products, including the Castle and Summit test handlers. Due to the possibility of customer changes in delivery schedules, cancellation of orders, potential delays in product shipments, difficulties in obtaining inventory parts from suppliers and failure to satisfy customer acceptance requirements, the Company's backlog as of any point in time may not be representative of actual sales in any future period. Furthermore, all orders are subject to cancellation or rescheduling by the customer with limited penalty. A reduction in backlog during any particular period could have a materially adverse effect on the Company's business, financial condition and results of operations.

DEMANDS ON INFRASTRUCTURE

The semiconductor equipment industry is characterized by dramatic and sometimes volatile changes in demand for its products. Changes in product demand result from a number of factors including the semiconductor industry's ever changing and unpredictable capacity requirements and changes in IC design and packaging. Sudden changes in demand for semiconductor equipment have a significant impact on the operations of the Company and other semiconductor equipment manufacturers. In response to a severe industry downturn in 1998, the Company reduced its total workforce by approximately 40%. During the

COHU, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS
SEPTEMBER 30, 1999

BUSINESS AND MARKET RISKS (CONT.)

first nine months of 1999, the Company increased its workforce by more than 50% as business conditions in the semiconductor equipment industry and the Company's order backlog improved. Such radical changes in workforce levels place enormous demands on the Company's operations and infrastructure since newly hired personnel rarely possess the expertise and level of experience of people they replace. The Company has recently experienced difficulties, particularly in manufacturing, in training the large number of additions to its workforce. In addition, competition for the employment services of certain personnel, particularly those with technical skills, is intense. No assurance can be given that the Company will successfully adjust its production capacity to meet customers' changing requirements. The inability to meet such requirements will have an adverse impact on the Company's financial position and results of operations.

DECLINE IN GRAVITY-FEED IC TEST HANDLER SALES

Sales of gravity-feed IC test handlers used in DRAM testing have represented a significant percentage of the Company's total semiconductor equipment related revenue during the last five years. Due to changes in IC package technology, gravity-feed handlers are no longer suitable for handling many types of DRAMs. As a result, the Company has seen a significant decline in sales of its gravity-feed test handler products. The Company introduced its Enterprise handler in 1998 that employs a handling technique, known as test-in-tray, that is particularly suited for parallel test applications like DRAMs. While the benefits of test-in-tray may be significant and the Company sold a significant number of these handlers in 1998, market acceptance of this product has been very limited and the future use of this technology is uncertain. If the Company is unable to successfully develop and market new products or enhancements to existing products for DRAM applications the Company's results of operations will be adversely impacted.

HIGHLY COMPETITIVE INDUSTRY

The semiconductor equipment industry is intensely competitive and the Company faces substantial competition from numerous companies throughout the world. Some of these competitors have substantially greater financial, engineering, manufacturing and customer support capabilities and offer more extensive product offerings than the Company. In addition, there are smaller, emerging semiconductor equipment companies that provide or may provide innovative technology incorporated in products that may compete favorably against those of the Company. The Company expects its competitors to continue to improve the design and performance of their current products and to introduce new products with improved performance capabilities. Failure to introduce new products in a timely manner, the introduction by competitors of products with perceived or actual advantages or disputes over rights of the Company or its competitors to use certain intellectual property or technology could result in a loss of the Company's competitive position and reduced sales of or margins on existing products.

CUSTOMER CONCENTRATION

As is common in the semiconductor equipment industry, the Company relies on a limited number of customers for a substantial percentage of its net sales. In 1998, three customers of the semiconductor equipment segment accounted for 51% of the Company's net sales. The loss of or a significant reduction in orders by these or other significant customers would adversely impact the Company's financial condition and results of operations. Furthermore, the concentration of the Company's revenues in a limited number of large customers may cause significant fluctuations in the Company's future annual and quarterly operating results.

COHU, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS
SEPTEMBER 30, 1999

BUSINESS AND MARKET RISKS (CONT.)

DEPENDENCE ON KEY SUPPLIERS

The Company uses numerous vendors to supply parts, components and subassemblies for the manufacture of its products. While the Company makes reasonable efforts to ensure that parts are available from multiple suppliers, this is not always possible; as a result, certain key parts may be obtained only from a single supplier or a limited number of suppliers. The Company has experienced problems in obtaining adequate and reliable quantities of various parts and components from certain key suppliers. There can be no assurance that the Company's results of operations will not be materially and adversely impacted if it does not receive sufficient parts to meet its requirements in a timely and cost effective manner.

INTELLECTUAL PROPERTY

The Company relies on patent, copyright, trademark and trade secret laws to establish and maintain its proprietary rights in its technology and products. However, there can be no assurance that any of the Company's proprietary rights will not be challenged, invalidated or circumvented, or that any such rights will provide significant competitive advantages. In addition, from time to time, the Company receives notices from third parties regarding patent or copyright claims. Any such claims, with or without merit, could be time-consuming to defend, result in costly litigation, divert management's attention and resources and cause the Company to incur significant expenses. In the event of a successful claim of infringement against the Company and failure or inability of the Company to license the infringed technology or to substitute similar non-infringing technology, the Company's financial condition and results of operations could be adversely affected.

FOREIGN SALES

During the first nine months of 1999, 60% of the Company's total net sales were exported to foreign countries, including 70% of the sales in the semiconductor equipment segment. The majority of the Company's export sales are made to destinations in Asia. Instability in global economic markets, particularly in Asia, may adversely impact the demand for capital equipment, including equipment of the type manufactured and marketed by the Company. In addition, changes in the amount or price of semiconductors produced in Asia could impact the profitability or capital equipment spending programs of the Company's foreign and domestic customers.

NON SEMICONDUCTOR EQUIPMENT BUSINESSES

The Company develops, manufactures and sells products used in closed circuit television, metal detection and microwave radio applications. These products are sold in highly competitive markets and many competitors are segments of large, diversified companies with substantially greater financial, engineering, marketing, manufacturing and customer support capabilities than the Company. In addition, there are smaller companies that provide or may provide innovative technology incorporated in products that may compete favorably against those of the Company. The Company has seen a significant decline in the operating results of these businesses over the last several years and the future prospects for certain of these businesses remain uncertain. No assurance can be given that the Company will continue to compete successfully in any of these businesses.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

At September 30, 1999 the Company's investment portfolio includes fixed-income securities of approximately \$69 million. These securities are subject to interest rate risk and will decline in value if

COHU, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS
SEPTEMBER 30, 1999

BUSINESS AND MARKET RISKS (CONT.)

interest rates increase. Due to the relatively short duration of the Company's investment portfolio, an immediate 10 percent increase in interest rates would have no material impact on the Company's financial condition or results of operations.

The Company generally conducts business, including sales to foreign customers, in U. S. dollars and as a result has limited foreign currency exchange rate risk. Monetary assets and liabilities of the Company's foreign operations are not significant. The effect of an immediate 10 percent change in foreign exchange rates would not have a material impact on the Company's financial condition or results of operations.

YEAR 2000 RISKS

The Company has a Year 2000 ("Y2K") Task Force focusing on four key readiness areas: 1) Internal Infrastructure Readiness, addressing internal hardware and software, including both information technology and non-information technology systems; 2) Product Readiness, addressing product functionality; 3) Supplier Readiness, addressing the preparedness of key suppliers to the Company and 4) Customer Readiness, addressing customer support. For each readiness area, the Company is performing a risk assessment, conducting testing and remediation, developing contingency plans to mitigate unknown risks and communicating with employees, suppliers, customers and other third parties to raise awareness of the Y2K problem.

Internal Infrastructure Readiness: This area is intended to cover all major categories of hardware and applications in use by the Company including those used in engineering, manufacturing, sales and finance. The Company, assisted by third parties, performed an initial assessment of all internal applications and computer hardware. All critical applications have been remediated, tested as necessary and determined to be Y2K ready. Substantially all hardware, including hubs, routers, telecommunication equipment, workstations and other items has also been remediated and determined to be Y2K compliant, with any remaining items expected to be completed by November 30, 1999. The Company has also assessed its non-information technology systems including embedded systems, facilities and other operations. Substantially all critical items have also been tested and either remediated or determined to be Y2K compliant, with any remaining items also expected to be completed by November 30, 1999. A contingency plan to address the impact of unknown and anticipated risks related to the Company's internal infrastructure is being developed and will continue to be revised and tested during the balance of 1999.

Product Readiness: This program focuses on identifying and resolving Y2K issues existing in the Company's products. The program encompasses a number of activities including testing, evaluation, engineering and manufacturing implementation. The Company has completed its Y2K readiness evaluation for all of its released products and has taken corrective actions to ensure that all of its products are Y2K compliant or has determined that other products are not impacted by Y2K. In addition, the Company has advised customers of certain potential product-specific impacts of Y2K on its products.

Supplier Readiness: This program focuses on minimizing the risks associated with key suppliers. The Company has identified and contacted key suppliers to solicit information on their Y2K readiness. To date, the Company has received responses from the majority of its key suppliers most of whom indicate that they believe products provided to the Company are either Y2K compliant or will be made Y2K complaint before the year 2000. Based on the Company's assessment of each supplier's progress to adequately address the Y2K issue, the Company is developing a supplier action list and contingency

COHU, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS
SEPTEMBER 30, 1999

BUSINESS AND MARKET RISKS (CONT.)

plans for those suppliers that do not appear to be making adequate progress towards Y2K readiness. Such contingency plans may include the identification of alternate suppliers or increasing the Company's inventory levels for critical parts. The Company is also dependent on governmental or commercial suppliers for certain services, including communications, transportation, utilities, financial, governmental and other services. While the Company's foreign operations are currently limited to Singapore and Taiwan, many of the Company's products are used in numerous locations throughout the world. If suppliers of infrastructure related services, such as electric utilities, in foreign countries are not Y2K compliant, the ability of customers to use certain of the Company's products may be negatively impacted which in turn could adversely affect the Company's results of operations. There can be no assurance that the Company's suppliers will adequately address all Y2K issues. As a result, the Company's ability to meet customer order requirements could be adversely impacted.

Customer Readiness: This program focuses on customer support issues, including the coordination of retrofit activity and developing contingency plans where appropriate. As of September 30, 1999, installation of retrofit upgrades at customer locations was substantially complete. Many of the Company's products are not impacted by Y2K and no retrofits were needed for these products. The Company plans to make a customer support team available to customers experiencing difficulty with its products at the time of the Y2K transition.

The Company estimates that total Y2K costs will be approximately \$750,000, with approximately \$500,000 incurred as of September 30, 1999. There can be no assurance, however, that there will not be a delay in, or increased costs associated with, the programs described in this section.

This discussion broadly addresses the Company's efforts to identify and address its and related third parties Y2K issues with respect to four readiness areas. While the Company believes it has taken steps to identify and remediate Y2K issues, there can be no assurance that product testing has identified all Y2K related issues or that the Company will effectively address every failure of its products resulting from Y2K issues. Furthermore, if efforts to identify and address Y2K issues in the Company's customer and supplier base and infrastructure are deficient, the Company may experience significant unanticipated problems that could have a material adverse affect on the Company's financial condition and results of operations. In particular, the effects of the Y2K issue on the Company's customers are unknown and could result in customer's delaying orders for the Company's products which would have an adverse impact on the Company's results of operations and financial condition. Lastly, significant litigation regarding Y2K issues is possible. It is uncertain whether, or to what extent, the Company may be affected by such litigation.

Due to all the above and other factors, historical results may not be indicative of results of operations for any future period. In addition, certain matters discussed above are forward-looking statements that are subject to the risks and uncertainties noted herein and the other risks and uncertainties listed from time to time in the Company's filings with the Securities and Exchange Commission, including but not limited to the 1998 Annual Report on Form 10-K, that could cause actual results to differ materially from those projected or forecasted. The Company undertakes no obligation to update the information, including the forward-looking statements, in this Form 10-Q.

PART II OTHER INFORMATION

ITEM 5. OTHER INFORMATION

On October 14, 1999 James A. Donahue was named to the position of President and Chief Operating Officer and was appointed to the Company's Board of Directors. Mr. Donahue joined Cohu's Delta Design subsidiary in 1978 and has been President of Delta Design since 1983 and President of the Cohu Semiconductor Equipment Group since 1998. Mr. Donahue will continue to report to Charles A. Schwan Cohu's Chairman and Chief Executive Officer.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits:

27.1 - Financial Data Schedule

(b) Reports on Form 8-K: The Company did not file any reports on Form 8-K during the quarter ended September 30, 1999.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

COHU, INC.

(Registrant)

Date: October 18, 1999

/s/ Charles A. Schwan

Charles A. Schwan
Chairman & Chief Executive Officer

Date: October 18, 1999

/s/ John H. Allen

John H. Allen
Vice President, Finance &
Chief Financial Officer

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM 1998 AND 1999 FINANCIAL STATEMENTS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS

1000

9-MOS		
	DEC-31-1998	
	JAN-01-1999	
	SEP-30-1999	
		51,339
		22,864
		43,864
		2,107
		51,263
	181,516	
		33,863
	16,805	
	199,577	
48,196		0
	0	
		0
		19,831
		130,040
199,577		
		134,725
	134,725	
		81,990
	81,990	
	0	
	0	
	0	
	21,143	
	7,400	
13,743		
	0	
	0	
		0
	13,743	
	0.70	
	0.67	

Item consists of Basic Earnings per Share